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**MARKET ACCESS SECRETARIAT**
**Global Analysis Report**

# E-grocery Market in Japan

**March 2016**

## EXECUTIVE SUMMARY


- With real GDP estimated to rise by 1.4% in 2016, and the recent conclusion of the Trans-Pacific Partnership (TPP) trade agreement to provide additional boost to the economy, the potential rate of growth in Japan is estimated to be 1.6% in 2016.
- Japan ranked 29 out of 189 countries in the World Bank's Ease of Doing Business 2015 report. Additionally, the government intends to reduce visa-issuing wait times, open economic zones with reduced taxes, and provide subsidies to new foreign companies.
- Japan is second largest e-commerce market in Asia Pacific. The number of internet users in Japan had reached 124.1 million in 2015, with 63.7% using the Internet to shop. Japanese consumers spent an average of US$81.98 per capita per month in 2015. Women aged from 35 years to 54 years spent the most on online grocery shopping, representing 35% of total sales. A sales tax hike in 2014 and another anticipated sales tax increase in 2017 are drawing more Japanese consumers to online shopping, where they can easily compare product prices.
- The omni-channel strategy, social networking interaction, private label launch and senior-friendly marketing are four new trends in Japan's e-grocery market.
- Seiyu (Walmart), Amazon Japan, FamilyMart UNY, H2O Retailing and Life are Japan's top five online grocers, with Seiyu (Walmart) accounting for 40% of the total online edible market sales in 2015.


## CONTENTS


Executive Summary ..... 1
Socioeconomic Profile ..... 2
Consumer Habits and Consumption Trends ..... 2
E-grocery Marketplace ..... 3
E-grocery Retailers ..... 4
Opportunities and Challenges for Canadian Suppliers ..... 7
For More Information ..... 7
Resources ..... 8


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## SOCIOECONOMIC PROFILE

### Country Profile

The economy in Japan grew by just 0.7% in 2015 after a slight contraction in 2014. In 2011, Japan suffered economic turndown after the Great East Japan earthquake and tsunami. However, with the real GDP estimated to rise by 1.4% in 2016, and the recent conclusion of the Trans-Pacific Partnership (TPP) trade agreement to provide additional boost to the economy, the potential rate of growth is estimated to be 1.6%.

### Demographics

The total population of Japan in 2015 was 126.8 million. The population began to fall in 2005, and is now ageing faster than most countries in the world. It was also estimated that Japan's population would drop to 117 million by 2030, a decline of 7.7% from 2015. By 2030, the number of Japanese over 65 years old is expected to increase by 8.7%, to reach 36.8 million.

The Japanese are postponing marriage, and staying childless for longer. In 2015, the number of single people in Japan represented 36.1% of the total population. As a result, smaller single person households have become the fastest growing type of household from 2010 to 2015. Single person households are expected keep growing at a compound annual growth rate (CAGR) of 0.17% from 2015 to 2020, while the number of households with over two persons is expected to decline at a CAGR of -0.13% over the same period.

### Income and Expenditures

Holding one of the highest average disposable incomes of US$20,340 in Asia Pacific, Japanese consumers have a relatively decent purchasing power. However, consumer expenditure had a slight contraction of US$3.7 billion in 2015, to reach US$2.37 trillion. The contraction may be the result of a sales tax increase in 2014 from 5% to 8%. Also, another tax hike is expected to be implemented in 2017.

## CONSUMER HABITS AND CONSUMPTION TRENDS

### Search for Better Deals

The shrinkage of Japan's economy in past years has led Japanese consumers to develop frugal habits. More consumers are searching for better deals through online portals. There is an increasing popularity of the co-branded credit cards, especially those attached to major online e-commerce retailers. Before purchasing products, consumers usually check the discounts on goods and other loyalty rewards of retailers. (Euromonitor International, 2015)

### Quality and Freshness Oriented

Quality and freshness is Japanese consumers' primary shopping criterion, especially on food items. More consumers are switching from premium goods to private label goods under famous retailers' names such as "FamilyMart Collection" under FamilyMart Co. Ltd., which can provide them with goods of similar high quality, but more affordable prices.

### Care of Corporate Social Responsibility

Social connectedness and responsible consumption are significant to many Japanese. Free trade purchases and socially responsible brands are included in the points Japanese consumers will consider before purchasing the product. Many companies are collaborating with social networking to let customers participate in the design of eco-friendly packaging of products.

***Source for all:*** *Euromonitor International, 2015*

**Need for Convenience**

The growing need for convenience leads to the boosted demand for semi-prepared, processed, and ready-to-eat meals. Younger families and single-persons usually find cooking time-consuming and are more likely to purchase more convenience food items.

**Wider International Cuisines**

The popularity of international food is on the rise. One of the reasons is the heathier eating trend. Imported salad concepts, cured meat, nuts and grains, which can usually be consumed at home, are all among popular imported foods.

**Top Three Product Claim Categories in Japan Market**
**From 2011 to 2015 - In percentage of total products**

| Claim Category | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| ***Natural*** | 4.79% | 6.46% | 11.04% | 18.68% | 17.76% |
| ***Ethical & environmental*** | 4.16% | 1.80% | 6.38% | 16.12% | 17.52% |
| ***Convenience*** | 18.52% | 18.28% | 15.09% | 14.75% | 12.81% |

***Source:*** *Mintel, 2016*

## E-GROCERY MARKETPLACE

**Market Overview**

Japan is the second largest e-commerce market in Asia Pacific. Because of the increased internet access into every household, more Japanese consumers are switching to online shopping. The number of internet users in Japan reached 124.1 million in 2015, and 63.7% of whom used the Internet to shop. Japanese consumers spent average US$81.98 per capita per month in 2015. In terms of online grocery shopping, total online grocery sales reached US$1.97 billion in 2015, with edible grocery sales of US$489 million. Women aged from 35 years to 54 years spent the most, representing 35% of total online grocery sales. These consumers, who usually live with families, tend to buy heavy or bulky food products with long shelf-life such as canned foods which are easier to deliver through online shopping. Also, consumers usually check review websites such as Kakaku.com to compare prices from different retailers before placing an order. (Planet Retail, 2016)

Because of the increased usage of smartphones and tablets, the popularity of M-commerce (Mobile commerce) is accelerating. Consumers, particularly the young people, find shopping through mobile devices more convenient than shopping in physical stores.

**Japan's Historic and Forecast Internet Retailing Sales by Category - In US Billions**

| Category | 2013 | 2014 | 2015 | 2016 | 2020$^F$ | CAGR % 2011-2015 | CAGR % 2015-2020$^F$ |
|---|---|---|---|---|---|---|---|
| Internet Retailing | 51.7 | 59.9 | 69.1 | 78.3 | 121.1 | 14.7 | 11.9 |
| Mobile Retailing | 13.6 | 19.4 | 25.9 | 32.2 | 60.8 | 50.0 | 19.0 |
| Mobile Retailing/ Internet Retailing | 26.3% | 32.3% | 37.50% | 41.10% | 50.20% | 30.3 | 6.0 |

***Source:*** *Euromonitor International, 2016* ***F****: Forecast*

Japanese consumers are usually risk adverse, especially the mid-lifers. There still remains some consumer concern about the security of online shopping, especially regarding credit card payment. As a

result, the online retailers promote the options of using other forms of payment such as the debit card and the prepaid card as well.

**Market Trends**

*Omni-channel Strategy*

As the retail landscape is shifting from traditional "bricks and mortar" to e-commerce, physical store retailers have been adapting to this trend by increasing their online presence. For example, Seven & I, the largest retailer in Japan, launched an omni-channel strategy to integrate physical stores with the online marketplace. Consumers can order from its online subsidiary 7 Net Shopping and pick up the order at its convenience store, 7-Eleven. At the same time, pure online retail giants, such as Amazon Japan, are collaborating with famous convenience stores, such as Lawson, to provide in-store pick up services as well.

*Social Networking Interaction*

Retailers are collaborating with social networking platforms to enable a constant connection with consumers and to establish a trustful branding image. Through social media platforms, retailers are able to publish new campaigns and get consumers involved in product design to show their corporate social responsibility. Consumers usually share the posts from retailers and report faults and grievances or positive experiences directly through retailers' homepages.

*Private Label Launch*

To meet diverse satisfaction from consumers, well-known retailers are aiming to launch and establish private labels under their names. For instance, FamilyMart Co. Ltd., the third biggest modern grocery retailer in Japan, offers consumers their designated products through the "FamilyMart collection". The "FamilyMart Collection" is divided into two categories based on their price ranges. The regular line of the collection is targeting consumers who are seeking budgeted products, while the platinum line offers mid-priced to premium packaged foods for consumers who prefer goods of higher quality.

*Senior-friendly Marketing*

Due to the ageing market, many retailers have launched senior-friendly foods to target the senior market. Retail giants, such as AEON, are exploiting senior markets and increasing the number of reward cards for senior consumers.

## E-GROCERY RETAILERS

**Japan's Top Grocery Retailers by Brand and Company Share**
**Historic % Breakdown Based on Retail Value Sales**

| Brand | Company Name (GBO) | 2013 | 2014 | 2015 | CAGR % 2010-2015 |
|---|---|---|---|---|---|
| 7-Eleven | Seven & I Holdings Co. Ltd. | 11.1 | 11.6 | 12.2 | 6.5 |
| Lawson | Lawson Inc. | 5.2 | 5.2 | 5.3 | -0.4 |
| Family Mart | FamilyMart Co. Ltd. | 4.6 | 4.9 | 5.1 | 6.1 |
| MaxValu | AEON Group | 2.5 | 2.6 | 2.7 | 3.3 |
| Circle K | Uny Group Holdings Co. Ltd. | 1.7 | 1.8 | 1.9 | 1.1 |
| Life | LIFE Corp. | 1.5 | 1.6 | 1.7 | 4 |
| Yamazaki Shop | Yamazaki Baking Co. Ltd. | 1.6 | 1.6 | 1.5 | -1.3 |
| Seiyu | Wal-Mart Stores Inc. | 1.5 | 1.5 | 1.5 | -1.3 |

**Japan's Top E-grocers by Brand and Historic Online Edible Grocery Sales[1]**
**In US Millions**

| Retailer | Banner | Store Format | 2014 | 2015 | CAGR % 2010-2015 |
|---|---|---|---|---|---|
| Walmart[4] | the-seiyu.com | Grocery e-commerce[2] | 201.2 | 195.8 | 30.20 |
| Amazon | Amazon | General merchandise e-commerce[3] | 157.2 | 158.8 | 8.51 |
| FamilyMart[5] | Famima.com | General merchandise e-commerce | N/A | 73.9 | 5.73 |
| UNY[6] | APITA NET SUPER | Grocery e-commerce | 28.2 | 33.9 | 44.89 |
| H2O Retailing | Hankyu/Hanshin Online Shopping | Grocery e-commerce | 14.9 | 13.3 | -1.59 |
| Life[7] | Life Net Super | Grocery e-commerce | 8.0 | 7.7 | N/A[8] |
| Izumi | Youme Shop | Grocery e-commerce | 4.8 | 4.2 | -5.00 |
| QVC | QVC.jp | General merchandise e-commerce | 1.5 | 1.4 | 3.85 |

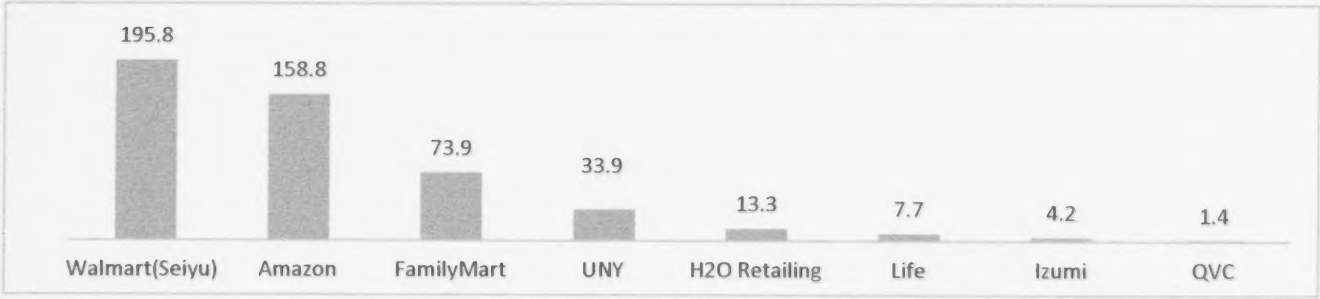
***Note 1 to 3:*** *Lexicons of terms are on page 8.*
***Note 4 to 7:*** *These grocers are also Japan's top grocery retailers.*
***Note 8*** *Life Net Super was founded in 2011.*

**Forecast of Japan's Top E-grocers by Brand and Online Edible Grocery Sales**
**In US Millions**

| Retailer | Banner | Store Format | 2016 | 2020[F] | CAGR % 2015-2020[F] |
|---|---|---|---|---|---|
| Walmart (Seiyu) | the-seiyu.com | Grocery e-commerce | 217.4 | 313.5 | 9.87 |
| Amazon | Amazon | General merchandise e-commerce | 161.2 | 159.2 | 0.05 |
| FamilyMart | Famima.com | General merchandise e-commerce | N/A* | N/A* | N/A |
| UNY | APITA NET SUPER | Grocery e-commerce | 20.4 | N/A* | N/A |
| H2O Retailing | Hankyu/Hanshin Online Shopping | Grocery e-commerce | 13.5 | 14.5 | 1.75 |
| Life | Life Net Super | Grocery e-commerce | 8.4 | 11.5 | 8.35 |
| Izumi | Youme Shop | Grocery e-commerce | 4.2 | 4.0 | -0.97 |
| QVC | QVC.jp | General merchandise e-commerce | 1.5 | 1.8 | 4.47 |

***Note*** *FamilyMart and UNY will merge in 2016 as FamilyMart UNY.* ***F:*** *Forecast*

**Japan's Top E-grocers Ranked by Online Edible Grocery Sales in 2015**
**In US Millions**






***Source for all:*** *Planet Retail, 2016*

**Japan's Top E-grocers by Total Edible Sales in 2015 - In US Millions**

| Retailer | Total Edible Grocery Sales of Retailer | Edible Grocery Sales of total sales under Retailer |
|---|---|---|
| FamilyMart UNY | 13,785.7 | 79% |
| Seiyu (Walmart) | 4,663.9 | 58% |
| Life | 4,395.3 | 83% |
| H2O Retailing | 2,951.5 | 38% |
| Izumi | 1,779.9 | 33% |
| Amazon Japan | 158.8 | 2% |

**Potential E-grocery Collaborators by Type**

*Online Pure Retailer*

**Amazon:** As the second biggest e-grocer in Japan, Amazon is moving forward to become a main player in online grocery with a CAGR of 8.51% in its total online edible grocery sales. Amazon Japan offers food items from famous branded foods to imported high-end products. With its strategy to become the main online grocer, Amazon has established five distribution centres and a customer service centre in Japan.

*Modern Grocery Retailer*

With e-commerce trending in Japan's retail market, more grocery giants are increasing their online presence. Well-known grocery retailers generated the most online edible grocery sales due to their long-established reputation in the grocery market. Seiyu (Walmart), FamilyMart, UNY and Life have made US$311.3 million in 2015, representing 63.6% of total online edible grocery sales of the top retailers.

**Seiyu (Walmart):** Japan's local supermarket company Seiyu was acquired by Walmart in 2008. Walmart encountered an overall sales downturn at a CAGR of -9% from 2010 to 2015. However, its pure e-grocery channel, "the-seiyu.com", had an outstanding performance with a CAGR of 30.2% from 2010 to 2015. Even though Seiyu is a medium-sized player, and its lack of convenience store presence may negatively influence Walmart to follow the current omni-channel strategy, Walmart still plans to expand the capacity of online grocery, and focus on imported goods. As a result, Walmart is inviting more global merchants and planning to introduce them in Seiyu's physical stores.

**FamilyMart UNY:** As Japan's third and fifth largest modern grocery retailers, FamilyMart and UNY have planned to merge together in the third quarter of 2016 to strengthen their leading role in the grocery retail market. Both the retailers operate online pure grocery channels. Famima.com focuses on some 10,000 items of rare goods to target niche markets. APITA Net Super under UNY grew at a CAGR of 44.89% from 2010 to 2015, which is at the top among all major e-grocery brands. One of the major trading companies in Japan, Itochu Corp., is collaborating with FamilyMart and UNY to provide merchandising, local and global distribution services. While FamilyMart lacks the efficient IT system, and UNY has limited supply chain management, it is expected that the merger of FamilyMart and UNY will help both overcome their weaknesses.

*Department Store Retailer*

**H2O Retailing:** Osaka based retailer H2O Retailing operates 15 department stores and 71 upscale supermarkets. Edible grocery is H2O Retailing's largest category, with around 3 billion sales occurring in 2015, representing 76.3% of its total grocery sales.

***Source for all:*** *Planet Retail, 2016*

## OPPORTUNITIES AND CHALLENGES FOR CANADIAN SUPPLIERS

**Opportunities**

- The 2020 Tokyo Olympics, Japan's new economic stimulus advocated by Prime Minister Shinzō Abe, and recently concluded TPP agreement will potentially boost Japan's economy, and benefit Canadian companies, especially small and medium-sized enterprises exporting into Japan.
- The increase in sales tax will continue to draw more Japanese consumers to the e-commerce market.
- Japan ranked 29 out of 189 countries in the World Bank's Ease of Doing Business 2015 report, and the government intends to reduce visa-issuing wait times, open economic zones with reduced taxes, and provide subsidies to new foreign companies.
- Japan has the world's oldest population, which will create an opportunity for functional products destined for seniors.

**Challenges**

- Economic stagnation will discourage consumer from purchasing goods and strips marketing opportunities.
- Continued decline in Japan's population from 2016 to 2030 will cause Japan to be a shrinking consumer market.
- Collaboration with local retailers is necessary. Unless foreign retailers show a competitive edge over domestic retailers, it could be difficult to remain profitable in the Japan's markets.

## FOR MORE INFORMATION

International Trade Commissioners can provide Canadian industry with on-the-ground expertise regarding market potential, current conditions and local business contacts, and are an excellent point of contact for export advice.

- **Overview of Trade Commissioner Services in Japan**
  http://www.tradecommissioner.gc.ca/eng/offices-japan.jsp

- **Find a Trade Commissioner**
  www.tradecommissioner.gc.ca/eng/find-trade-contacts.jsp

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For additional information on FoodEx-Japan 2016, please contact:

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## Lexicons

Online Edible Grocery Sales[1]: Online sales of food, drink & tobacco in retail (excluding foodservice).

Grocery E-commerce[2]: Websites focusing on the sale of groceries. May also sell non-food.

General Merchandise E-commerce[3]: E-commerce sales of retailers selling a variety of mainly non-food products, where no one category accounts for more than 60% of its sales.

E-GROCERY MARKET IN JAPAN

*Global Analysis Report*

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